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COMMUNIST COUNTRIES BALK AT ARAB OIL PRICES

Soviet and East European imports of crude oil from the Middle East and North Africa fell sharply beginning with the first of the year and may be running 400,000 b/d below anticipated levels. The USSR and Eastern Europe have been balking at their suppliers' terms, which include higher than market-level prices, firm contracts, and payment in hard currency.

- No Iraqi oil has been obtained by the USSR since December 1973, because Moscow does not wish to pay \$17 per barrel in hard currency. High-level negotiations between Soviet and Iraqi officials have not resolved the issue to date. The USSR reportedly had plans to procure as much as 400,000 b/d of Iraqi oil during 1974, but with the cessation of deliveries so far during 1974, this goal probably will not be realized.
- Deliveries of Libyan oil to the USSR also have stopped since December 1973, apparently because of Moscow's refusal to accept higher prices (about \$16 per barrel).
- During the past few weeks, Iraq has offered oil to Hungary at \$13.75 per barrel, instead of the \$17 per barrel requested in January 1974. The Hungarians are still holding out for a price of \$9.00-\$9.50 per barrel, which they claim is more nearly the average price in the present market.
- Shipping reports through the first 10 days of March show a sharp decline in oil deliveries from Iraq to Bulgaria in January 1974 and no further shipments since then. Reports indicate that the major refinery in Burgas is in danger of having to reduce operations because of a lack of crude oil.

Moscow probably could make up for the loss of Middle East oil delivered to Eastern Europe on Soviet account for about six months. The USSR is in the position of having agreed to supply Eastern Europe with

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its own oil at a fixed price of about \$2.50 per barrel, when it could get about four times that much in hard currency from the West. Deliveries to Eastern Europe above these commitments almost certainly would be at the new, higher world prices.

Soviet exports to Western Europe appear to be running near the 1973 level of 800,000 b/d. Moscow values its reputation as a reliable supplier, oil being one of its best hard currency earners. Reports in late 1973 that the Soviets were running behind on deliveries to France and West Germany were false; recent information from importers in these countries shows Soviet deliveries fell within contract limits. (~~SECRET~~)

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